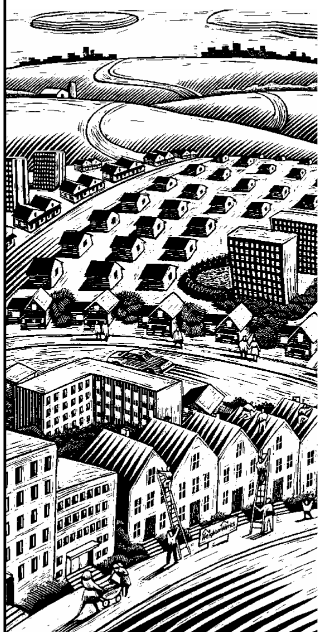
Strategies for Successfully Marketing and Stabilizing the Occupancy of Mixed-Income/Mixed-Race Properties

A Case Study of Cedar Beech and Elm Street Properties in Manchester, New Hamsphire



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Site at a Glance:
Cedar Beech and Elm Street Properties
In Manchester, New Hampshire



Property	Residents	Neighborhood (Census Tract)
92 units, most with 3 BR in 5 buildings	312 residents in 91 occupied units	Cedar Beech 3079 residents Elm Street 1872 residents
92 LIHTC units 64 units also have HOME subsidy	48% < 30% of median 19% 31-50% of median 25% 51-80% of median 8% >80% of median	Cedar Beech 26% poverty rate Elm Street 32% poverty rate
Redeveloped 19th and early 20th century small 3 and 4-floor walk-ups in two inner city neighborhoods	66% white 29% Hispanic Most white residents are Bosnians and other immigrants from Balkans	Cedar Beech 73% white 16% Hispanic Elm Street 68% white 18% Hispanic
Placed in service 1994 and 2001	82% are families with children	Cedar Beech—one of several NHS properties in older neighborhood of wood frame structures, many small multifamily, close to downtown Cedar Beech street corner overcame reputation as center of drugs and crime
Owner: Manchester Neighborhood Housing Services Manager: Stewart Property Management	79% have employed adults 34% have two or more employed adults	Elm Street is mixed use commercial, residential, and light industry, with some commercial revitalization nearby Elm Street—on city's main street, overlooking historic factory and warehouse buildings, great view of river

Keys to Success

- Very attractive rents--below LIHTC and HOME maximums and way below market
- State and city willingness to provide financing that makes low rents possible
- Critical mass of improved housing and community policing overcame early marketing problems associated with neighborhood perceived as dangerous
- Willingness to take a chance on hard-to-screen recent immigrants
- Careful attention to creating community across two distinct ethnic and language groups—Balkan refugees and Caribbean Hispanics.
- Spacious units, good maintenance, and competent management

Section 1: What Type of Mixed-Income Property is this and Why does it Work?

Cedar Beech and the two Elm Street properties make up 92 units of mixed-income, mixed-race multifamily housing in Manchester, New Hampshire. Almost half of the residents have incomes below 30 percent of area median income, while a quarter have incomes between 51 and 80 percent of median and a small number (8 percent) have incomes above 80 percent of area median income.

The properties were developed and are owned by Manchester Neighborhood Housing Services (MNHS) as part of that non-profit organization's mission to stabilize and revitalize city neighborhoods and to provide affordable housing. Cedar Beech was redeveloped and placed in service as a Low Income Housing Tax Credit (LIHTC) and HOME property in 1994. The properties on Elm Street were placed in service in 2001 with subsidies from LIHTC, HOME, and the Federal Home Loan Bank of Boston's Affordable Housing Program.

a. What Mixed Income/Mixed Race Model(s) Does this Property Typify?

Cedar Beech and Elm Street represent several models of mixed income/mixed race properties.

1. The mixed income character of the multifamily properties owned by Manchester Neighborhood Housing Services grew out of the rules of affordable housing programs that charge the same "flat" rents to residents at various income levels. For some of these developments, public funding (often from multiple sources) permits rents substantially lower than the rents of market-rate housing of the same quality, and a socially motivated owner of the housing charges those below-market rents even when program rules would permit rents closer to market. The below-market rents attract families with incomes at different levels, including those close to the program's income limit for initial occupancy. The fact that the rents do not increase with income encourages some residents whose incomes rise above the limit to stay.

   With all units covered by the LIHTC program, such properties do not have a tier of residents paying market rent (or a tier marketed to those with incomes greater than 80 percent of area median income), but they house families with a broad range of incomes: poor families, working families with modest incomes, and families who have experienced income growth while living at the property.

2. The mixed race character of the MNHS developments and their neighborhoods evolved from immigration patterns into a small industrial city with a fairly robust economy. Refugees from Bosnia and Hispanic families from farther south on the East Coast came to Manchester and found the MNHS neighborhoods and properties met their needs for safety, access to employment, and neighbors from the same cultural community.

3. Cedar Beech is part of a model of successful community revitalization that includes redevelopment of multifamily housing. Manchester NHS was originally created to address the problems of the distressed neighborhood in which Cedar Beech is located. The willingness of families with a broad range of incomes to live in the neighborhood reflects a neighborhood turn-around based on a critical mass of well-managed housing, along with community policing to bring crime under control. The neighborhood was neither too large nor too isolated to be revitalized successfully with available resources.

4. This is not *intentionally designed* mixed-income multifamily housing. Despite the public subsidies, it is similar to a mixed income neighborhood that occurs naturally when rents are affordable and the neighborhood and its housing provide a good place to live.

b. Why are Cedar Beech and Elm Street Successful Mixed Income/Mixed Race Properties?

The Manchester NHS multifamily properties are successful because they provide spacious family housing (mainly three-bedroom units) that is physically attractive, conveniently located, and well managed--and that costs less than alternatives available in the Manchester housing market. The developers and managers have combined basic high-quality property management with careful attention to creating community across two distinct ethnic and language groups.

1. *MNHS put together a financing package that made possible substantial physical redevelopment of older properties, while at the same time permitting the properties to cover costs with very modest rental income*. The buildings have good curb appeal, they are well maintained, and the units provide substantial living space: 3 bedroom units with ample square footage. Together with rents set and maintained substantially below market, this makes Cedar Beech and Elm Street a very good deal for families at a variety of income levels. Those with extremely low incomes often can afford the rents, and those with growing incomes have no reason to move out.

   The owner and manager do not “push” the rents towards a market-comparable level in order to maximize income and feed a substantial replacement reserve. Instead, they are motivated by MNHS’s basic mission of providing affordable housing. The owner hopes to recapitalize the properties with another infusion of LIHTC equity when the time comes. While this is a high-risk strategy, the properties’ socially motivated equity investors and public agency financers have been willing to accept it. Assembling another hefty financing package may well be possible, given MNHS’s successful track record for managing the properties and for using them to support the revitalization of Manchester neighborhoods.

2. *The property developed first—Cedar Beech—was part of a broader neighborhood revitalization effort in a distressed neighborhood.* While subsidized multifamily development efforts often include neighborhood change as one of their announced goals, in this case there was a real strategy: a small enough neighborhood and a large enough effort. MNHS bought and redeveloped several other multifamily buildings close to Cedar Beech, creating a critical mass of properties with good curb appeal and good management. Meanwhile, the neighborhood's crime problem was greatly reduced through community policing. Potential residents no longer remember a murder that took place in front of one of the Cedar Beech buildings shortly after the property was occupied. Over time that neighborhood revitalization has been sufficiently successful that turnover at Cedar Beech is low and the waiting list is long.

3. The owner and manager were willing to *take a chance on a new immigrant group whose credit and housing histories were impossible to check*. Bosnians who were part of a Department of State refugee resettlement program were critical for filling vacancies at Cedar Beech in the mid 1990s. Along with other immigrants from the Balkans, they now make up a substantial fraction of the residents of the Elm Street properties, as well as Cedar Beech.

4. MNHS has been very sensitive to the mixed-race/ethnicity character of their developments. *Community services have focused on creating good relations and neighboring across the two predominant groups*: Hispanics of Puerto Rican and Dominican origin and Bosnians. Among the three social services staff for the MNHS multifamily properties—the director and two residents employed part time—there is always one person of Hispanic origin and one of Balkan origin. These activities are paid for in part from the operating budget of the properties and in part from MNHS general funds.

5. *Social services also focus on avoiding unemployment and enhancing skills and income*, both because fostering upward mobility is part of the mission of MNHS and to sustain the ability of residents to pay the rent. Most residents must continue to pay the same rent despite losing a job (only a very few have housing vouchers). When a major employer left Manchester, MNHS worked with other public and private agencies to get residents who were laid off back to work quickly.

c. What Hypotheses about Successful Mixed Income Housing Does This Property Support?

1. *Mixed-income housing works best where there is intentionality on the part of the developer to see to it that the project mix works well.* The vision of mixed income housing implemented at these developments is a broad range of incomes from the lowest levels to 80 percent of median income. The owner believes that some families with extremely low incomes should be able to afford to live in Cedar Beech and the Elm Street properties. When the Elm Street properties were redeveloped, MNHS was able to obtain 30 tenant-based vouchers to reduce the rents for returning residents

who otherwise would not have been able to afford the new rents. Since all residents must qualify for LIHTC at initial occupancy, there is no effort to market to typical market-rate renters such as young professionals. Families with growing incomes are encouraged to remain in MNHS multifamily housing –but only up to a point. The MNHS view is that people with incomes close to or above 80 percent of area median should become homeowners; to support this, rents have been raised slightly for families at that income level.

2. *Mixed-income housing in strong real estate markets allows for a wider mix of incomes than in weaker market areas.* Manchester has a moderately strong housing market, and this is reflected in the willingness of families with incomes between 51 and 80 percent of median to live at Cedar Beech and the Elm Street properties. Manchester probably does not have a sufficiently “hot” housing market to make feasible a tier of units occupied by households with incomes well above 80 percent of area median in the transitional neighborhoods in which the MNHS properties are located. Neighborhood aside, most Manchester households with incomes close to area median are likely to be homeowners.

3. *Mixed-income housing cannot be successful unless the fundamentals of real estate development are followed.* The redevelopment of Cedar Beech may appear to be a contrary example at first, since it was developed in a neighborhood where it was hard to keep the property occupied even at very low rents in the early years. On the other hand, Cedar Beech was not redeveloped in isolation, but by an owner able to create a critical mass of redeveloped housing in a small area. Counting on neighborhood revitalization would be a very high-risk strategy for an owner without the resources needed (or else the assurance that others were committing the resources) for a successful effort to change the neighborhood.

4. *Mixed-income housing can be created by giving all residents good housing at a bargain price. This requires heavy subsidy and may involve complex financing.* Creating rent schedules low enough to get Cedar Beech through the initial occupancy phase, and to keep rents affordable for families at a broad range of incomes at the three the MNHS properties, required more than just an allocation of LIHTC from the New Hampshire Housing Finance Agency. For each of the three developments, there were multiple funding partners and programmatic sources of funds. One of the Elm Street properties had 11 sources of funds to support the redevelopment and also had an allocation of 30 vouchers at the time it was reoccupied. Cedar Beech had the least complex financing of the three properties, in part because the structures were vacant and boarded up and cost very little to acquire.

5. *Community building in mixed-income settings requires ongoing efforts by management and residents to limit conflict and build a workable community among people of different backgrounds.* Creating community across racial/ethnic groups has been the most self-conscious and “intentional” feature of the MNHS multifamily properties. Social events are designed to be inclusive of all residents, and resident employees of MNHS are available to solve problems that may arise among individual

residents because of language barriers or cultural perceptions. MNHS resident services staff always include at least one person from each of the two major ethnic groups.

6. *Mixed-income housing can have families with children across income groups if the income groups are continuous.* The income groups at Cedar Beech and the Elm Street properties are continuous, without a sharp distinction among "tiers" of residents and no "market rate" tier explicitly designed for those with incomes much greater than 80 percent of area median income. Families in all income groups have children, and, therefore, there are no sharp distinctions in behavior or expectations between families at different income levels. If there were a market rate tier, it would be unlikely to attract families with children, who in Manchester would be likely to be homeowners.

Section 1: History of the Properties

Cedar Beech consists of 24 units in three small buildings close to downtown Manchester NH. It was the earliest (1993-1994) of several small multifamily properties acquired and redeveloped by Manchester Neighborhood Housing Services (MNHS) during the 1990s in an effort to turn around a neighborhood suffering from physical decay and with a reputation as the most dangerous area of the city.

The Elm Street properties represent a more recent phase (1998-2001) of MNHS multifamily development activities in Manchester and are in a different low-income neighborhood. One of the Elm Street properties is called Smith and Dow, while the other is called Carpenter and Bean. Together, they consist of 68 units in a single attached row of 4-floor walk-up buildings fronting on Manchester's main commercial street. They have separate financial structures but were redeveloped at the same time and are marketed and managed together. Therefore (and to avoid having to repeat their separate names), they often are considered together as the Elm Street properties.

All units at Cedar Beech and the Elm Street properties were redeveloped under the Low Income Housing Tax Credit program, and two of the three had HOME subsidies as well. The income tiers were created in response to the rules of the LIHTC and HOME programs, to perceptions about what would make applications to these programs competitive, and to the mission of MNHS to create housing that is as affordable as possible. Formal differentiation among income tiers is slight: some units are reserved for families with incomes below 50 percent of area median income at initial occupancy, while others may be rented to families with incomes up to 60 percent of area median. There is no distinction in the rents paid by families admitted to the different tiers: all units rent at levels below both the LIHTC and HOME maximum allowable rents and substantially below market rents.

A modest number of units at each property are occupied by families with Housing Choice Vouchers issued by the Manchester Housing Authority.

Exhibit 1 shows the number of units in each of the income tiers of the three properties, as well as the number of units occupied by families with vouchers as of 2004.

Exhibit 1: Income Tiers for Cedar Beech and Elm Street Properties

Unit Composition	Below 50% median	Below 60% median	Vouchers in use 2004
Cedar Beech	12	12	4
Elm St.--Smith and Dow	30	10	9
Elm St.--Carpenter and Bean	14	14	3
Total	56	36	16

a. Development History

Cedar Beech

Originally built around 1910 as apartments in a working class neighborhood, the three small buildings redeveloped by MNHS as Cedar Beech were vacant and boarded up as of 1993. MNHS paid only $64,000 for all three buildings.

Cedar Beech was placed in service in 1994, after substantial rehabilitation and reconfiguration that cost $62,000 per unit. The 24 units are slightly fewer than in the original structures, as the back section of one building was torn down. Unit sizes were kept large, as the size of the units was believed to be one of the property's only marketing advantages at the time.

Elm Street

The Elm Street properties were originally built in the 1880s as housing for middle managers of Manchester factories. They are on a hill overlooking a district of factories and warehouses and the Merrimack River beyond. MNHS acquired the Elm Street properties from private owners in 1998 for approximately $1.8 million. They were fully occupied by low-income families paying modest market rents, some with the help of vouchers. Many of the families were Hispanic, although there were a few long-term white, non-Hispanic and African-American residents.

There was some delay in the start of rehabilitation, which took two years. During the rehabilitation, most of the original residents were relocated within the property, as the work proceeded in stages. A few residents were relocated off site, with a right to return to the property. The buildings were placed in service in 2001.

While managed as a single property and constituting a single community, the two Elm Street properties have separate financial structures. All 40 three-bedroom units in Smith and Dow have both LIHTC and HOME financing. The one, two, and three-bedroom units in Carpenter and Bean have only LIHTC. In order for the HOME application to be competitive, the percentage of Smith and Dow families with income below 50 percent of area median income at initial occupancy was set at 75 percent for Smith and Dow. For Carpenter and Bean, it was 50 percent.

In order to protect the lowest income original residents of the Elm Street properties, the New Hampshire Housing Finance Agency (NHHFA) allocated 30 Housing Choice Vouchers for initial use there.[1] These vouchers are not attached to the property, and voucher families are free to move elsewhere taking the subsidy with them. Eighteen voucher users have done so, while some other voucher families have moved in.

b. Ownership and Management Team

The properties are owned by limited partnerships in which MNHS is the general partner. The limited partners are Enterprise Social Investment Corporation (Cedar Beech) and the Northern New England Housing Investment Fund (the Elm Street properties). MNHS was created at the request of the City of Manchester in 1992 with the explicit goal of revitalizing the neighborhood around Cedar Beech.

The mission of MNHS is, first, to revitalize Manchester's neighborhoods and, second, to ensure affordable housing for low and moderate-income families. These were the objectives behind acquiring and redeveloping Cedar Beech, the Elm Street properties, and the other 83 LIHTC units NMHS had placed in service as of 2004. Creating housing with a mixed income and mixed race character was not an explicit objective.

Stewart Property Management, a local company specializing in subsidized multifamily housing, manages all of the MNHS multifamily properties. The management functions for the MNHS properties are split into occupancy and maintenance. A common staff works across the 175 MNHS units, with the leasing and occupancy office located behind the Elm Street properties. Two of the maintenance workers also are tenants at the Elm Street properties. The NMHS properties constitute about 10 percent of Stewart Property Management's business.

Section 3: Property, Residents, and Neighborhood

a. Basic Property Information

The buildings that comprise Cedar Beech are located within a block of each other and are close to other properties that have subsequently also been acquired and rehabilitated by MNHS. They are large wood frame walk-up structures, similar to others in the neighborhood, with zero lot lines on a grid of residential streets. There are 18 three-

[1] These were "tenant protection" vouchers left over from another purpose.

bedroom units and 6 two-bedroom units. Off street parking for at least one car for each of the 24 units is adjacent to one of the buildings, and a vest pocket park is next to another building.

The two Elm Street MNHS properties form a continuous long city block, but can be distinguished by the fact that the Smith and Dow buildings have bow fronts and the Carpenter and Bean buildings do not. Most of the units were reconfigured during the redevelopment, adding hallways to make the multi-bedroom units suitable for families (they previously had been railroad flats). All 40 units in Smith and Dow have three bedrooms, while Carpenter and Bean has 28 one, two, and three-bedroom units. The apartments are spacious, and many architectural features, such as wood moldings and (non-working) fireplaces, were preserved. Apartments have private access to wooden balconies with river views. There are a few off street parking spaces, originally allocated to residents by lottery and now by a waiting list.

Neither Cedar Beech nor the Elm Street properties have security guards or special physical security systems such as unit entry alarms.

b. Resident Characteristics

Cedar Beech and the Elm Street properties are family developments of primarily working households. Two ethnic communities predominate: recent immigrants from the Balkans, mainly Bosnians who arrived in Manchester during the 1990s as part of a US Department of State refugee resettlement program; and Hispanics, mainly Puerto Ricans and Dominicans, who moved to Manchester during the same time period from farther south along the East Coast. (Hispanics rose from 2 to 4 percent of the city's population during the 1990s.)

As of 2004, the three properties have similar populations, so they are summarized for all 91 occupied units in Exhibit 2. The developments are home to many poor households—48 percent have incomes, adjusted for family size, below HUD's extremely low-income (30 percent of area median) threshold. At the same time, many have moderate incomes--33 percent have incomes above the 50 percent of area median income level.

Many households have seen substantial income growth while living in the MNHS properties. Manchester continues to have traditional manufacturing plants that, together with service industries, provide jobs for residents. Nearly one-third of the households have two working adults. It is common for parents to work different shifts in order to reduce childcare costs.

The median income of the households occupying the three properties in 2004 is $25,792, less than two thirds of the median income in the Cedar Beech ($39,887) and Elm Street ($42,063) census tracts.

Exhibit 2: Resident Characteristics for Cedar Beech and the Elm Street Properties, 2004

Resident Characteristics	Number	Percentage
Number of Households Number of Residents	91 308	
Household Income • <30 percent median • 31-50 percent median • 51-60 percent median • 61-80 percent median • >80 percent median	 44 17 21 2 7	 48% 19% 23% 2% 8%
Race/Ethnicity of Residents • White • Hispanic • Black • Asian	 203 89 8 8	 66% 29% 3% 3%
• **Families with children**	75	82%
• **Households with a working adult**	72	79%
• **Households with two or more working adults**	31	34%
• **Median income of households in properties**	$25,792	
• **2000 Census Tract Median Income** o Cedar Beech o Elm Street	 $39,887 $42,063	

A few residents of Cedar Beech and Elm Street properties (8 percent) have incomes above 80 percent of area median income. While MNHS staff are pleased to see this income growth among the residents of their multifamily properties, they consider that, in Manchester, a family with income greater than 80 percent of area median ought to be buying a house. Therefore, they have just implemented a policy that will raise the rents for these households to the LIHTC maximum, instead of the below-LIHTC rents they are now paying. This is only a gentle push into homeownership, however, as the LIHTC rents are still considerably below median rents in Manchester and the market value of the MNHS multifamily units. Balkan immigrant families, in particular, when asked about their homeownership plans, explain that they would rather continue to rent and to save money.

c. Neighborhood Characteristics

The Cedar Beech and Elm Street neighborhoods are on different sides of downtown Manchester and about a mile apart. They are similar in many respects, as can been seen from the census tract information presented in Exhibit 3. Both have predominately white, non-Hispanic populations, but they have greater concentrations of minorities than Manchester as a whole. For example, the census tracts are 16 and 18 percent Hispanic, compared with about 4 percent for the city. Both are largely rental neighborhoods, with homeownership rates below 10 percent, and both have high rates of people living in poverty—26 percent for the Cedar Beech census tract and 32 percent for the census tract in which the Elm Street properties are located. More than half the housing stock in both neighborhoods was built before 1940.

Exhibit 3: Summary Neighborhood (Census Tract) Information

Cedar Beech

Characteristic	**Number**
Neighborhood Population	
Number of Households	1,075
Number of Residents	3079
Neighborhood Income Levels	
2004 HUD Estimated MSA Median Family Income	$72,800
2004 Est. Tract Median Family Income	$39,887
Tract Median Family Income as % of MSA Median	55%
% Below Poverty Line	26%
Race/Ethnicity	
% Black	4%
% White (non-Hispanic)	73%
% Hispanic	16%
% Asian, other, and two or more races	7%
Neighborhood Housing	
Total Housing Units	1,147
Median Age of Housing Stock	61 years (1940s)
% owner occupied	9%
% renter occupied	86%
% vacant	5%

Elm Street Properties

Characteristic	*Number*
Neighborhood Population	
Number of Households	1066
Number of Residents	1827
Neighborhood Income Levels	
2004 HUD Estimated MSA Median Family Income	$72,800
2004 Est. Tract Median Family Income	$42,063
Tract Median Family Income %	58%
% Below Poverty Line	32%
Race/Ethnicity	
% Black	4%
% White (non-Hispanic)	68%
% Hispanic	18%
% Asian, other, and two or more races	10%
Neighborhood Housing	
Total Housing Units	1102
Median Age of Housing Stock	61 years (1940s)
% owner occupied	7%
% renter occupied	88%
% vacant	5%

The Cedar Beech neighborhood is almost entirely residential, consisting of small multifamily wood frame structures that rise directly from the sidewalks of rectangular city blocks. Many buildings date from the first decades of the 20th century, when this was a working class neighborhood in a thriving industrial city. There are few non-residential properties other than churches and schools. However, because Manchester is a small city of approximately 100,000 people, the neighborhood is not isolated. It is close to bus lines and a few blocks east of a downtown area that has much new commercial activity and is showing substantial signs of revitalization. The neighborhood has some commercial activity that serves the communities living in the neighborhood, including Spanish markets catering to both Caribbean and Central American tastes and a Bosnian convenience market. Manchester's Islamic Center is close to Cedar Beech. Many, although not all, of the Balkan families living in the properties and the neighborhood are Muslims.

The Elm Street properties are in a quite different low-income neighborhood, a few blocks north of downtown on the city's main commercial street. On the other side of Elm Street and in the adjacent blocks are modest retail shops, health clinics, and a welfare office. East of Elm Street is a once elegant neighborhood that is the most recent target of MNHS activities. MNHS is creating a rental housing development under the Low Income Housing Tax Credit program that includes, as one of the buildings, the mansion that once belonged to the Ezekiel Strawbridge, the English manufacturer who founded the city in the 1830s.

The quality of both neighborhoods clearly has improved since 1990, when they had rental vacancy rates in the 16 to 18 percent range. While they both had and have high poverty rates, the area around Cedar Beech was the more clearly defined neighborhood, and its reputation was not good. The corner on which one of the Cedar Beech properties is located was considered among the worst in the city, with obvious drug trafficking and a reputation as a dangerous place at any time of day. After the redevelopment of Cedar Beech, MNHS proceeded to acquire and rehabilitate several additional multifamily developments in the immediately adjacent blocks. The MNHS properties are visibly better maintained than other structures (e.g., fresher paint), but the neighborhood now has only a few badly deteriorated buildings and an overall well kept appearance. The city is maintaining the streets, sidewalks, lighting, and other amenities well. Perhaps most important, a community policing program succeeded in reducing dramatically both actual crime and emblems of neighborhood distress such as young men hanging out in groups.

While in a census tract with a slightly higher 2000 poverty rate than Cedar Beech, the Elm Street properties have the advantage of being on the "better" side of town. One of MNHS's objectives in acquiring the properties was to make it possible for children from low and moderate-income families to continue to attend one of the best elementary schools in the city. The neighborhood had lost a substantial share of its population over the years, as can be seen from the low number of people living in the census tract as of 2000 (1827, in contrast to a typical census tract size of 4000). Because of the river views and proximity to downtown, the neighborhood is a potential target for gentrification. Luxury apartments are already under development a short distance away.

Section 4: Stabilization of Occupancy

a. Cedar Beech Overcomes Early Occupancy Problems by Accepting Bosnian Refugees and Continuing to Work on the Neighborhood

The low acquisition cost and favorable financing terms made it possible to set very attractive rents at Cedar Beech, especially for apartments that had large square footage and new appliances and finishes. Rents were set at an average of $400, plus an allowance of about $100 for tenant-paid utilities. Third floor apartments and those in the building on the most notorious street were assigned somewhat lower rents than the other units. There was no formal market study, but these were very modest rents for Manchester at the time, when the Fair Market Rent (FMR) for a *two-bedroom* unit was $604. Despite the low debt, these rents were not expected to cover operating costs over time, and an operating reserve of close to $100,000 was established for the time when the cash flow would turn negative. This is an unusual practice, and it may be that the neighborhood revitalization objective of the property was what made the financers willing to accept it.

Initial lease-up went quickly, based on newspaper advertising and word of mouth. The initial marketing budget was about $50 per unit per year. Then, later in the year of initial occupancy, a murder was committed in the middle of the day right in front of one of the buildings. Turnover increased, and the waiting list dried up.

The occupancy crisis continued for some months, without any change in either rent levels or the marketing approach. The rents could not have been reduced without producing negative cash flow or dipping prematurely into the operating reserve. Vacancy losses were covered, in part, by tapping into the replacement reserve for items that would have been covered by the operating budget in better times.

Then two things happened. First, an agency with which the US Department of State had contracted to help Bosnian refugees settle in Manchester approached Stewart Property Management. According to Paul Stewart, the management company's president,[2] the decision to lease to Bosnians newly arrived in the US was considered a gamble, as there was no way of doing credit and rental history checks on these families. MNHS and Stewart Management admitted just one family at first. After that family turned out to be a good tenant, additional Bosnian families were accepted and moved into Cedar Beech. Bosnians and people from other Balkan countries became, and continue to be, a large fraction of the residents of Cedar Beech and of other MNHS multifamily housing.

Meanwhile, MNHS acquired and rehabilitated other properties in the neighborhood and helped persuade the city to use Enterprise Community funds to create a community policing sub-station very close to Cedar Beech. Cedar Beech once again reached full occupancy. The waiting list grew and has been long ever since. It currently takes 6 to 12 months to reach the top of the centralized list for the MNHS multifamily properties, and applicants do not hesitate to accept units in the Cedar Beech neighborhood.

b. Re-occupancy of Elm Street Properties is Easy in a Tight Rental Market

Establishing the rent schedules for the Elm Street properties was essentially a negotiation between MNHS staff, who wanted to set them at 80 percent of the LIHTC maximum, and New Hampshire Housing Finance Agency staff, who wanted to underwrite the project with rents at 90 percent of the LIHTC maximum. They compromised at 85 percent. There was a market study, but MNHS was more concerned about affordability than marketability. As part of the compromise, NHHFA allocated 30 vouchers to residents returning to Smith and Dow in order to make the new rents affordable for them. These were portable vouchers, requiring only first use in Smith and Dow.

The sitting tenants at Smith and Dow had Uniform Relocation Act (URL) rights because of the HOME funds, but MNHS extended URL benefits to residents of both properties. MNHS did not hold turnover units off the market after buying the buildings and before the start of construction, but instead asked tenants who moved in during that period to waive relocation rights. Many of the residents were moved from building to building on site, as the rehabilitation proceeded in phases, but some were relocated to other housing in Manchester.

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[2] Records for the initial occupancy period of Cedar Beech were not available. This account is based largely on an interview with Paul Stewart.

When the redeveloped Elm Street properties were placed in service in 2001, about 40 percent of the units were re-occupied by people who had lived there at the time MNHS acquired the buildings. As often happens with relocation, some families were happy to stay elsewhere. For the most part, returning families were happy with the apartment assigned to them on return. Some special situations (sisters who did *not* want to live across the hall from each other) were handled on a case-by-case basis. Screening criteria were relaxed for the returning residents; a small number of returnees found that they could not cope with the rent obligations or occupancy rules of the redeveloped properties and subsequently left.

It was very easy to fill the other 60 percent of the units. The management office for MNHS multifamily housing (now relocated behind the Elm Street properties) filled the waiting list mainly on the basis of phone calls from people who had heard about the redevelopment. Many were Bosnians who had friends or relatives in other MNHS housing. By the time the properties went into occupancy (Smith and Dow in May 2001 and Carpenter and Bean in December 2001) the waiting lists were substantial and the pace of occupancy depended simply on processing time. With rents at $585, including heat, most aspiring renters did not even ask to see the apartments. As is the case for Cedar Beech, the Elm Street properties have essentially no marketing budget, and marketing consists mainly of complying with program rules that require advertising broadly, maintaining waiting lists fairly, and verifying incomes.

Section 5: Maintaining High Occupancy Rates and Profitability

a. Rents Are Not Pushed to Market Levels, but Instead Set Just High Enough to Cover Costs

With affordability as one of its core missions, MNHS increases rents only to the extent necessary to cover costs and does not define those costs expansively. Instead of basing rent increases on marketability, MNHS bases the annual rent increase on the cost-based budget presented by Stewart Property Management.

All three properties maintain relatively modest replacement reserves. This was anticipated in the pro forma operating statements for the Elm Street properties, which anticipated that the replacement reserve would start at very modest levels, be funded at the level required by the regulatory agreement with NHHFA, and be drawn down at about the same pace. Similarly, the replacement reserves at Cedar Beech were modest from the start and have remained so. The strategy appears to be to use replacement reserves as needed for repairs and replacements not fundable from the operating budget and to count on re-capitalizing the properties from a new infusion of Tax Credit equity at the end of 15 years. That date is 2009 for Cedar Beech, and 10 years into service, the building finishes do not show signs of deterioration.

The properties are not experiencing unusual turnover. Turnover in 2003 and 2004 averaged 12 percent per year across the 92 units in the three properties, ranging from no units turning over at Cedar Beech in 2003 to 18 percent (5 units) at Carpenter and Bean in 2004.

Vacancies are filled from the waiting lists. The waiting lists grow stale, and some families' incomes turn out to be above the limit, especially when the vacancy must be filled by a household with income below 50 percent of median. However, the only relatively difficult units to market are the fourth floor apartments in the Elm Street buildings. While they have the best views, many families do not want to carry groceries, children, strollers, etc., up four floors. This has not caused a big problem, however, as the rents continue to be extremely attractive.

Exhibit 4 shows the 2004 rent schedules for the three properties. For all unit sizes, they are substantially below the FMRs for Manchester.

Exhibit 4: 2004 Rent Schedules (Including Utility Allowances)

	Cedar Beech	**Smith & Dow**	**Carpenter & Bean**	**30% of 50% of median***	**2004 FMRs for Manchester MSA**
1 bedroom	None	None	580	654	712
2 bedrooms	707	None	658	785	888
3 bedrooms	765	696	696	907	1110

* These would be the maximum rents for the most affordable of the HOME units, the "low HOME rent limits." LIHTC rent limits, at 30 percent of 60 percent of area median income, would be even higher.

The three bedroom units that predominate across the properties had rents in 2004 that ranged from 75 to 85 percent of the maximum permitted for units reserved for families with incomes below 50 percent of area median. Clearly the 33 percent of the residents with incomes greater than 50 percent of area median (Exhibit 2) are getting a very good deal on rent. According to MNHS staff and Stewart Property Management, alternative housing available to these families is multifamily housing owned by a private company that charges substantially higher rents for units in much worse condition--e.g., $899 for a two-bedroom unit, with no utilities included, compared to $658 to $707 less utility allowances at the MNHS properties.

At Cedar Beech, rents are no longer differentiated by building, as the "worst" address is now considered the best (a quieter street and next to a vest pocket park created by MNHS). Cedar Beech units have separate heating for each apartment, and a more substantial utility allowance is included in the estimate of gross rents shown on Exhibit 4.

The perspective of the director of leased housing at the Manchester Housing Authority is that the "Stewart Property Management" properties are well managed and in good condition, and Stewart is on the housing authority's list of landlords willing to rent to voucher holders. However, she does not know well either the MNHS multifamily properties or the neighborhoods in which they are located. To the extent that she thinks of MNHS as a partner for the housing authority, it is for the program that permits families to use vouchers for homeownership and not for providing a potential source of housing for families seeking to use vouchers to rent.

The returning families who used portable vouchers at Elm Street in 2001 have moved out at about the same rate as other families. Some new voucher families have moved in, but there were only 12 vouchers in use at the two Elm Street properties in 2004 and 4 at Cedar Beech (Exhibit 1). According to MNHS staff, because of the 6 to 12-month length of the waiting list for MNHS properties, those who come to the top of the list usually do not have vouchers. Voucher holders must find a unit within 60 days from when the voucher was issued (sometimes extended to 120 days), so voucher users generally find other housing before they come to the top of the MNHS list. MNHS and Stewart Property Management would welcome some additional voucher families because of the above-LIHTC rents permitted for units rented to voucher holders.[3]

Rents probably could be set higher without reducing occupancy, although this does not appear to have been documented through market studies. With higher rents, MNHS would be able to receive more substantial repayments on some of the soft financing provided by the organization (e.g., deferred development fees). So far only 10 percent of potential repayments have been made, and these repayments have come from the "windfall" of additional rental income received from the Manchester Housing Authority on behalf of voucher families.

The limited partners, Enterprise Social Investment Corporation and the Northern New England Housing Investment Fund, are socially motivated organizations. Their monitoring of the MNHS properties has not included any scrutiny of rent levels or suggestions that the properties should produce surplus cash. It appears that, as long as the properties perform financially (have positive cash flow and no danger of defaulting on loans) and they comply with LIHTC rules, these organizations are satisfied with the tax benefits created by their equity investments.

b. Services are Appropriate for a Community of Ethnically Diverse Working Families

Resident services at the MNHS multifamily properties were started in the late 1990s and are funded from the operating budgets of the Elm Street properties and from MNHS general funds. Resident services have focused on two objectives:

- Sustaining the working family character of the community living at each property.
- Creating and sustaining harmonious relations between the two very distinct ethnic communities living at the properties.

[3] The rules of the LIHTC program permit rents above the LIHTC maxima for units with rental assistance. At the same time, many housing authorities interpret the rules of the voucher program as permitting them to pay rents above those actually charged for LIHTC units that do not have rental assistance, as long as those higher rents would pass other aspects of the voucher program's "rent reasonableness" test.

A very large fraction of all residents of Cedar Beech and the Elm Street properties are families with children and a working parent or parents. Many have jobs that are insecure, and a heavy emphasis of the resident services program has been job placement for those who have lost jobs. A major employer, a food processing plant, closed in 2002, and several families at the MNHS properties lost the income of one or both workers. The MNHS social services coordinator made referrals to the job placement center established in Manchester to deal with this plant closing, and most of the dislocated workers were reemployed within a few months. Recently MNHS redefined its employment goal from reducing unemployment to increasing employment wages. Each year staff analyzes the local job market and identifies a high wage skill. The first training program was on soldering, and the participants were women. Future plans are for training on medical records coding.

Another reflection of the working family character of MNHS multifamily properties is an emphasis on after school programs. However, particularly at the Elm Street properties, there is a great deal of informal after school child care by neighbors, so the formal Help with Homework program staffed by students from a local college is not completely subscribed.

MNHS staff are very sensitive to the potential for conflict arising from cultural and language differences between the Balkan and Hispanic communities at Cedar Beech and the Elm Street properties. In addition to the director of social services, there are two Tenant Ambassadors, hired 10 hours per week to help with community building at the properties. The director of social services is Hispanic, and one of the two tenant ambassadors is Bosnian. Keeping both communities represented in this group is believed important. It can be challenging to recruit the Bosnian Tenant Ambassador, because it is necessary to select someone with stature in the community (either a man or an older woman). For reasons that may have to do with building configuration (a continuous row at Elm Street vs. three non-contiguous buildings at Cedar Beech) or property size (68 units at Elm Street vs. 24 at Cedar Beech), the Elm Street properties function more as a community than does Cedar Beech. Especially in the summer, Elm Street residents congregate on the stoops and sidewalks in front of the buildings. Most units have windows that face Elm Street.

The total annual budget for the MHNS Community Initiatives program for multifamily housing is $94,468, or $540 per unit for 175 units. Of this, $217 per unit is paid for by resident services fees from the operating budgets of the properties, and the remaining $323 per unit requires fundraising from corporations and foundations.

Section 6: Development Financing

For both Cedar Beech and the Elm Street properties, MNHS was able to put together financing packages that permitted rehabilitation of older properties while permitting them to cover debt service and operating costs from modest rental income. The multiple sources of development funds reflect the skill of MNHS in obtaining financing and working with a complex financing package.

Cedar Beech

The three buildings that comprise Cedar Beech were vacant and boarded up when MNHS bought them for a total of $64,000 for the three buildings. They were placed in service in 1994, after substantial rehabilitation and reconfiguration that cost $62,000 per unit. Total development costs for Cedar Beech were $87,000 per unit; besides acquisition and construction costs, this included soft development costs, a replacement reserve, and an operating reserve of $3,893 per unit.

As a development with an explicit neighborhood revitalization objective, Cedar Beech received from the city a non-amortizing HOME loan of $630,000—about 30 percent of the total development costs.[4] The only debt with an annual servicing requirement is a $225,000 loan from the New Hampshire Housing Finance Agency. A loan from MNHS is repayable out of surplus cash (Exhibit 5).

Exhibit 5: Permanent Financing Information for Cedar Beech

Lender/Investor	Debt/Equity	Rate	Amount	Annual Requirement
NHHFA	Taxable bonds	7.00%	225,000	$17,963
NHHFA/HOME	Non amortizing loan	1.00%	630,176	Repayable from surplus cash
MNHS loan	GP Loan	5.76%	182,954	Repayable from surplus cash
Federal Home Loan Bank of Boston AHP	Grant	N/a	250,000	None
ESIC	Proceeds from LIHTC syndication	N/a	811,411	None
TOTAL Funds			**2,009,541**	

Elm Street Properties

MNHS acquired the Elm Street properties from private owners in 1998 for approximately $1.8 million. Smith and Dow has a very complicated financing package, including NHHFA bond financing, a 4 percent tax credit, and HOME funds from both the city and the state. Carpenter and Bean has a 9 percent tax credit and does not have HOME funds (Exhibit 6).

[4] These were city of Manchester HOME funds administered for the city by the state.

Rehabilitation costs were about $82,000 per unit at Carpenter and Bean and $97,000 per unit at Smith and Dow.

Exhibit 6: Permanent Financing Information for the Elm Street Properties

Lender/Investor	Debt/Equity	Rate	Amount	Annual Requirement
Smith and Dow (40 3BR units)				
NHHFA	Taxable bonds	7.75%	1,050,000	85,254
NHHFA/HOME	Non-amortizing loan	0%	525,000	Non-amortizing
City of Manchester/HOME	Non-amortizing loan	0%	800,000	Non-amortizing
NHHFA	Lead paint abatement loan	0%	300,000	Non-amortizing
Federal Home Loan Bank of Boston AHP	Non-amortizing loan	0%	200,000	Non-amortizing
MNHS	Deferred GP loan fee	0%	155,000	Repayable from surplus cash
MNHS	Deferred GP capital fee	N/a	297,355	Repayable from surplus cash
MNHS	Construction period income	N/a	60,000	None
Neighborhood Reinvestment Corporation	GP capital	N/a	200,000	None
MNHS	Equity from initial acquisition	N/a	85,707	None
Northern New England Housing Investment Fund	Proceeds from LIHTC syndication	N/a	2,948,474	None
TOTAL Funds Smith & Dow			**6,621,536**	
Carpenter and Bean (2 1BR, 14 2BR, and 12 BR units)				
NHHFA	AHF loan	4%	900,000	45,132
MNHS	Deferred GP capital fee		175,143	Repayable from surplus cash
MNHS	Equity from initial acquisition	N/a	59,996	None
NHHFA	Lead paint abatement loan	N/a	14,000	Non-amortizing
MNHS	Construction period rental income	N/a	45,000	None
Northern New England Housing Investment Fund	Proceeds from LIHTC syndication	N/a	2996,891	None
Total Funds Carpenter & Bean			**4,191,030**	